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C O N F I D E N T I A L SECTION 01 OF 02 LAGOS 000358

SIPDIS

DEPT PASS TO EX-IM KVRANICH AND BUBAMADU
TREASURY FOR ASEVERENS AND SRENENDER
USDOC FOR 3317/ITA/OA/KBURRESS
PASS OPIC FOR ZHAN AND MSTUCKART
PASS TDA FOR NCABOT
PASS USTR FOR ASST USTR FLISER

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SUBJECT: NIGERIA'S CENTRAL BANK GOVERNOR ON THE DEFENSIVE

Classified By: Consul General Donna M. Blair for reasons 1.4(b) & (d)

¶1. (U) SUMMARY: Governor Sanusi of Nigeria's Central Bank (CBN) has been defending himself in National Assembly Committees. At issue is the legality of his sacking of five bank Managing Directors (MD). Sanusi contends that his actions were legal, while members of the National Assembly want to be more involved. Business leaders in Enugu and Lagos expressed their concern and dismay regarding Sanusi's actions, while banks in the South-East and South-South regions were more supportive. END SUMMARY.

Governor on the Defensive

¶2. (U) Summoned before the House of Representatives Committee on Banking and Currency on September 2 to explain the current banking reforms, Governor Sanusi expressed his intention to resign if there were fundamental errors in his decisions.

¶3. (U) Sanusi defended his decision to travel to the United Kingdom on August 26th to hold a town hall meeting in London to explain his recent actions. Sanusi wanted to convey assurances about the stability of the Nigerian financial system. His critics believe that Sanusi was in the UK to sell the five banks to foreign investors. Sanusi's preference is that the five banks have investors, foreign or domestic, who could effectively run the banks. Sanusi also pointed out that Nigerian law does not prevent a foreign bank holding 100 percent ownership of a Nigerian bank.

¶4. (U) The House of Representative Committee on Drugs, Narcotics and Financial Crimes criticized the CBN's decision to inject 420 billion Naira (\$2.7 billion) into the five banks, demanding that funds be withdrawn until they are appropriated by the National Assembly. Sanusi defended his decision stating that the CBN Act gives him control of the money supply and that the 420 billion Naira is a loan, not bailout money, that would be paid back by the banks.

¶5. (U) While speaking at the Nigerian American Chamber of Commerce's (NACC) meeting in Lagos on September 2, Chief Ajibola Ogushola, Chairman of Punch Newspapers raised the possibility that the loans made to the troubled banks by the CBN will eventually be turned into equity, thereby weakening the influence of the accused MDs even further.

¶6. (U) The Economic and Financial Crimes Commission (EFCC) Reported, on September 3rd, the repayment of 45 Billion Naira (\$290 million) from 90 accounts. This represents

roughly 41 percent of all outstanding loans and six percent of the outstanding loan value. Union Bank has received the highest percentage of payback at 14 percent of loan value representing 10.6 billion Naira. Finbank and Oceanic were the lowest, recovering three percent of their loan value representing 1.5 and 9.5 billion Naira, respectively.

South-East Region Not Impressed

¶17. (SBU) Reaction was negative at a September 1 Chamber of Commerce meeting in Enugu, the region of former Governor Soludo, which Lagos Econoff attended. Both the President of the Chamber, Olisaemeka Jideonwo and Director General (DG) of the Chamber, Emeka Okereke, expressed their disappointment over CBN actions and subsequent road-show. Nigeria's problems should not be publicly aired, according to the Chamber. Although there was recognition that the banks were in trouble and something needed to be done, the way in which the CBN acted was not condoned. President Jideonwo, DG Okereke, and Elder Chief Ndukwo Ndukwo Ogbuja, MD of Gbujas Group, expected Sanusi to go through the National Assembly and follow what they termed &due process.8 Okereke thought that Soludo had done an excellent job by building relations with banks that Sanusi was now ruining.

Lagos Concerned About Impact of CBN Action

¶18. (SBU) Chief Ogushola, in his presentation to the NACC, spoke of his concerns about the misuse of bad loan information for blackmail or manipulation. There is a need

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for transparency and clear rules as to how to use this information. Ogushola went on to say that Northern businesses (Note: No specific businesses were named. End note) were taking advantage of the shake-up to establish themselves in the banking industry. Ogushola was concerned that Sanusi will get the Ribadu treatment and be sidelined eventually, if not forced out altogether. (Note: Ribadu was the former head of the EFCC who was removed for being too effective against corruption. End note). At the end of the day, Ogushola expects to see a long bitter dispute played out in the courts and the legislature.

¶19. (C) Mazi Sam Ohuabunwa, CEO of Neimeth Pharmaceuticals, formerly Pfizer, spoke with Foreign Commercial Service Officer at the NACC about his concerns of credit lines constricting due to CBN. Ohuabunwa predicted that not only will business lending be affected but the financing of fuel imports could potentially be affected thereby causing a fuel shortage. The naming and shaming of those not servicing their loans will lead to long and bitter disputes in both the court and the legislature according to Ohuabunwa.

¶10. (SBU) As the ongoing audits of the remaining thirteen banks are completed, many here expect that more disturbing discoveries of insider trading and other irregularities will be uncovered. This could place additional pressures on the CBN to bail out some of the other banks -- a popular Nigerian media mantra just now -- for example when Raypower Radio in Abuja cited unnamed sources September 1 on this troubling matter.

¶11. IMF Country Director David Nellor informed EconOff on September 3 that the CBN has accepted the IMF,s offer of technical assistance and a small IMF team will be arriving early next week to sort out complications arising from recent CBN actions and develop contingencies to counter possible negative ramifications. According to Nellor, criminal action against defaulters is likely to be challenged by the defaulters and draw the affected banks into lengthy litigation, making the banks unattractive for investors. He added that although the EFCC,s action against the criminal activities of the former managing directors of the affected

banks could be proper, he doubted that criminal actions against defaulters were proper. Nellor said that the EFCC seems to have seized on the banking crisis to prove its worth following recent criticism from Secretary Clinton.

¶12. (C) COMMENT: With the bold steps taken by Central Bank Governor Sanusi, the EFCC needs to continue the clean-up by prosecuting the bank MDs as well as the individuals who have not serviced their loans. For this to be effective, the courts and the National Assembly will have to cooperate as well. Despite criticisms from detractors, Sanusi has generally elicited praise for identifying and publicizing malfeasance within the banking sector. Whether GON officials, particularly the Attorney General and EFCC, follow through with proper investigations and prosecutions will indicate whether such efforts mark a positive turn in anti-corruption efforts or a return to business as usual.
END COMMENT

¶13. (U) This cable has been coordinated with Embassy Abuja
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